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NEWMEX MINERALS INC.

2005 ANNUAL REPORT

NEWMEX MINERALS INC.
Annual Report
September 30, 2005

To our shareholders:

Newmex Minerals Inc. ("Company") has seen a dramatic transformation. It has changed from a relatively small and dormant mining company to an aggressive oil and gas exploration and production company. We have concluded two acquisitions and have signed letters of intent on two further acquisitions relating to major oil and gas projects both in the United States and Canada. In addition, we are actively reviewing new opportunities in North America with an emphasis on large resource plays where new technology and high commodity prices will allow us to economically develop previously known but uneconomic accumulations. Although much of North America is mature from an oil exploration and production perspective, our strategy is to secure projects with material upside oil and gas reserves potential and supplement these development projects with high impact, low to moderate risk exploration targets.

San Miguel Project – Maverick Basin, South Texas

The Company has concluded the acquisition of a 50% interest in the San Miguel sandstone heavy oil deposit in the Maverick Basin of South Texas. This deposit is a large, well defined resource containing some two to three billion barrels in place as estimated by the Texas Bureau of Economic Geology. Pilot steam projects conducted in the 60's, 70's and early 80's demonstrated the technical viability of the project and demonstrated production rates of up to 600 barrels of oil per day with estimated recovery efficiency ranging from 40% to 55% of the original tar-in-place. Since this time, major changes in oil and gas technology and economics have emerged which will now allow the San Miguel field to be developed. The most important of these is oil price.

At the time of the San Miguel Pilots, oil prices were less than one third of the present day prices. This is particularly true with reference the San Miguel heavy crude type which may command a premium price due to the strong asphalt market and the low acid content of the crude. The second major factor is technology. There are a large number of heavy oil and tar sand projects being developed around the world which have led to advances in efficiency and cost management. One such advance expected to benefit the San Miguel Project is the use of cyclic steam stimulation, rather than steady state steam flooding, which lowers the energy input requirements and provides immediate reservoir injectivity to heat the resource. Another is the use of inert gases to improve the depth of penetration of the steam front. These practices were not widely used at the time of the San Miguel Pilots. Pilot operations are now underway to determine the technical and economic feasibility of the project using two newly drilled wells, with injection and production operations expected to start in early 2006.

Palo Duro Basin Project – North Texas

The Company also concluded the purchase of a 45% working interest of a large land position in the highly competitive Palo Duro Basin. The Palo Duro Basin is located in northwest Texas, 260 miles northwest of the Fort Worth Basin which is home to the Barnett Shales. The Palo Duro shale play is an unconventional natural gas play targeting shales that exist at depths between 8,000 to 10,000 feet. The Palo Duro shales are twice as thick as the Barnett shales with slightly lower organic content (2.5% versus 4.0%) which suggests that the gas-in-place for Palo Duro may be comparable to the Barnett shale analog. The Barnett shale is considered the largest shale gas play in the world with current production in excess of 1.2 bcf of gas per day. The Company and Petroglobe Energy USA Ltd. have assembled a very large land position comprising 58,000 gross acres of land in the Palo Duro play fairway which is expected to grow to 100,000 gross acres in the near term. Four exploratory wells are budgeted for 2006 and we are excited about the Company's early position in this emerging new resource play.

Valkyries / Rincon Gulf Coast – California Exploration and Production Project

The Company completed the purchase of the U.S. properties of Valkyries Petroleum Corp. ("Valkyries") in January 2006. This acquisition provides producing properties in Texas and an investment in a California based company named Rincon Energy Partners LLC ("Rincon"), a company focused on generating and evaluating oil and gas prospects for sale or direct participation. Through the acquired interest in Rincon, the Company will hold interests in an onshore California oil discovery and an offshore Texas gas discovery. The acquisition of the Valkyries U.S. properties also provides varying interests in several gas producing properties in Texas ranging from 12.6% to 23.6%. The current net production to the Company from the Texas properties is approximately 600 thousand cubic feet of gas per day and 65 barrels of oil per day. Valkyries was also recently awarded an offshore OCS exploration block in the Mustang Island area which is being transferred to the Company. The Rincon relationship will continue to be developed through the drilling of existing prospects, as well as a result of the signing of a forward consultancy agreement with Rincon's parent company.

Pan-Global Onion Lake Heavy Oil Project – Alberta / Saskatchewan

A letter of intent has been signed to acquire Pan-Global Energy Ltd. ("Pan-Global") on a 6 for 1 share basis in favor of the Company. The primary asset in Pan-Global is a 95% interest in a large heavy oil deposit with secondary gas objectives, referred to as the Onion Lake lands, which is located along the Saskatchewan/Alberta border near Lloydminster. Pan-Global is entitled to exclusively explore and develop approximately 148,000 acres of existing and new Treaty Land Entitlement Reserves under the terms of an agreement with Onion Lake Energy Ltd., an entity wholly owned by Onion Lake First Nation of Saskatchewan/Alberta. The project is subject to a 15% back-in right by Onion Lake Energy Ltd. The project contains a conventional heavy oil accumulation in the Dina Formation and is currently producing approximately 325 barrels of oil equivalent ("BOE") per day (60% gas, 40% heavy oil). This transaction is expected to close in early 2006 and the Company plans to accelerate the current development and production of both oil and gas, and to investigate the feasibility of using steam injection to increase the recovery efficiency of the heavy oil deposit.

Corporate

During calendar 2005, the Company raised by way of private placements Cdn $20,088,500, with most of these proceeds targeted at new acquisitions and the development of reserves.

The Company looks forward to growth and success in the coming year as we execute our strategy to build a profitable North American oil and gas company.

Gary S. Guidry

Gary S. Guidry
President and CEO
January 23, 2006

This Management Discussion and Analysis was prepared as of January 23, 2006 and should be read in conjunction with the Consolidated Financial Statements and Notes thereto, which have been prepared in accordance with Canadian generally accepted accounting principles. Additional information relating to Newmex Minerals Inc. is available on SEDAR at http://www.sedar.com. This Management Discussion and Analysis may contain forward looking statements and information. Forward looking statements are statements that are not historical fact and are generally identified by words such as "believe", "expects", "projects", "could" or similar words suggesting future outcomes. By their nature, forward-looking statements and information involve assumptions, inherent risks and uncertainties, many of which are difficult to predict, and are usually beyond the control of management, that could cause actual results to be materially different from those expressed by these forward looking statements and information. Risks and uncertainties include, but are not limited to, risk with respect to general economic conditions, property values, regulations and taxes, civil unrest, corporate restructuring and related costs, capital and operating expenses, pricing and availability of financing, and currency exchange rate fluctuations. Readers are cautioned not to place undue reliance on these forward looking statements and information.

The Company does not undertake to update or re-issue the forward-looking statements and information that may be contained herein, whether as a result of new information, future events or otherwise.

OVERVIEW

As at September 30, 2005 Newmex Minerals Inc. ("Newmex" or the "Company") was a Calgary based mining company trading on the TSX Venture Exchange under the symbol "NMM". As a result of the Company's acquisitions and other activities subsequent to September 30, 2005, the Company is in the process of transitioning to an oil and gas exploration and development company

In March 2005 the Company concluded an $825,000 private placement and debt settlement, which resulted in a change of the Company's controlling shareholder. With the injection of capital and no debt obligations, the Company was then in a position to and accomplished:

- a prospecting program at its Zeballos mineral property.
- the appointment of Gary Guidry as a director, and subsequent to September 30, 2005, his appointment as Chief Executive Officer and President, and the appointment of Gary Hyde as Chief Operating Officer, both well respected, seasoned oil and gas executives.
- the signing of three memorandums of understanding relating to the acquisition of major oil and gas opportunities, with the conclusion of the acquisitions subsequent to September 30, 2005.
- an additional $2,500,000 private placement in September 2005, and subsequently in December 2005, a further $16,763,500 private placement, thereby raising total gross proceeds during the 2005 calendar year of $20,088,500.
- the trading price of Newmex going from $0.055 per common share in March 2005 to close at $4.00 per common share on September 30, 2005.

For the year ended September 30, 2005, the Company had net income of $365,348 with essentially all of this derived from the $846,244 gain the Company realized on its debt settlement with Proprietary Industries Inc. ("PPI"), Newmex's former parent company. The Company also recorded write-downs of $226,300 relating to: its Zeballos mineral property ($25,000), the increased provision for estimated asset retirement allowances ($25,500), and the Golden Phoenix Minerals, Inc. ("GPXM") shares it held prior to the debt settlement ($175,800). All of the aforesaid are non-recurring items. Had these not occurred the Company would have realized a loss for the year of $254,596.

OPERATING RESULTS

For the year ended September 30, 2005, the Company had net income of $365,348 versus a net income for the year ended September 30, 2004 of $291,677. In the second quarter fiscal 2005, the Company settled its indebtedness to PPI and this resulted in a net gain on debt settlement of $846,244. This net gain on debt settlement is comprised of: a $988,158 gain on the debt settlement, a $130,301 loss on the disposition of the GPXM shares, and an $11,613 exchange loss. In fiscal 2005 the Company also took write-downs totalling $226,300. In the year ended September 30, 2004 the Company reflected a net income of $291,677, which included a gain of $417,082 on the disposition of GPXM shares and write-downs of $75,000. These two respective year's primary sources of net income are both non-recurring and therefore the comparison between the two respective fiscal years is difficult.

For fiscal 2005, the Company's total expenses were $282,448 versus $149,659 for fiscal 2004. The primary differences for the increase in expenses between the two fiscal years are: (a) $64,200 in expenditures on the Zeballos mineral property relating to the completion of a preliminary prospecting report carried out by independent consultants; (b) $56,250 in professional fees pertaining to regulatory and compliance requirements and audit fees; and (c) $36,100 for administrative and other services supplied by PPI; with an offset to these increases coming from (d) lower interest expense of $18,600 resulting from the debt settlement; and (e) $15,500 in lower consulting fees from fiscal 2004 relating to the Zeballos mineral property.

	Year ended September 30,		
	2005	2004	2003
Expenses	$ 274,265	$ 122,884	$ 112,822
Interest on Proprietary Industries Inc. advances	8,183	26,775	36,848
Write-downs	226,300	75,000	827,989
Total	508,748	224,659	977,659
Gain on disposal of short-term investments	-	417,082	217,629
Foreign currency exchange gain (loss)	19,315	91,338	335,378
Gain on settlement of debt	846,244	-	-
Income taxes (recovery)	-	(4,430)	9,889
Revenues	8,537	3,486	816
Net income (loss)	$ 365,348	$ 291,677	$ (433,725)
Earnings (loss) per share	$ 0.02	$ 0.04	$ (0.05)
Total assets	$ 3,191,003	$ 797,078	$ 1,453,853
Advances from PPI and EnerGCorp, Inc.	$ -	$ 1,391,312	$ 2,303,453

The Company has reflected $153,883 in expenditures relating to the memorandums of understanding for the acquisition of certain oil and gas interests located in the United States as prepaid expenses. With the finalization of the acquisitions, these expenditures will be reclassified to part of the purchase price for the respective oil and gas interests.

Until the Company establishes revenues from its mining property and/or production revenues from its oil and gas acquisitions, the Company will incur net losses as its only source of revenue is from interest earned on its cash reserves.

Fourth Quarter and Fiscal Period Comparisons

The Company had a net loss for the three months ended September 30, 2005 of $142,506. As the Company has no material sources of revenue, this loss relates to costs of maintaining its mineral property and the overhead costs as a reporting entity. The loss for the three months ended September 30, 2004 was $33,454. The primary differences between the two respective three month fiscal periods are additional regulatory and compliance costs, expenses for establishing the Company's stock option plan, and administrative and other fees charged by PPI (which PPI provided at a nominal charge in fiscal 2004 while PPI was Newmex's parent company).

Summary of Quarterly Results

The following table summarizes key financial information on a quarterly basis for the last two years:

2005:	Q1	Q2	Q3	Q4
Expenses before write-downs	$ 28,863	50,070	115,403	$ 88,112
Write-downs	175,800	-	25,000	25,500
Total expenses	204,663	50,070	140,403	113,612
Gain on disposition of short-term investments	-	-	-	-
Foreign currency gain (loss)	55,375	(746)	(1,151)	(34,163)
Gain on settlement of debt	-	846,244	-	-
Net income (loss)	$ (149,110)	795,565	(138,601)	$ (142,506)
Earnings (loss) per share	$ (0.02)	0.09	(0.01)	$ (0.01)

2004:	Q1	Q2	Q3	Q4
Expenses before write-downs	$ 26,019	37,199	52,058	$ 34,383
Write-downs	-	-	-	75,000
Total expenses	26,019	37,199	52,058	109,383
Gain on disposition of short-term investments	116,340	264,470	28,762	7,510
Foreign currency gain (loss)	79,614	(15,892)	(33,630)	61,246
Net income (loss)	$ 170,120	211,665	(56,654)	$ (33,454)
Earnings (loss) per share	$ 0.02	0.03	(0.01)	$ (0.00)

ACQUISITIONS

San Miguel Project

On July 15, 2005 the Company entered into two memorandums of understanding for the acquisition of a 50% interest in the San Miguel Heavy Oil Field Development ("SM Project") which is located in Texas. The purchase was concluded on November 18, 2005. The Company established a wholly owned US subsidiary in which the participation rights are held. As a result of the purchase, the Company is now a 50% participant in the development of a large, shallow depth, heavy oil deposit located in the Maverick Basin in South Texas. Pilot testing operations are underway. The acquisition was paid for by: (a) the issuance of 4,000,000 common shares of the Company at a deemed issue price of $0.92 per common share; (b) the issuance of 4,000,000 non-transferable common share purchase warrants of the Company; and (c) the payment of $150,000 US. Each warrant entitles the holder thereof to purchase an additional common share of the Company at a price of $1.00, exercisable from the date the SM Project achieves an average daily producing rate of 5,000 barrels of oil per day, averaged over 30 consecutive days, until November 18, 2008. The Company has funded an additional $750,000 US, which funds are to be utilized for land acquisition and the drilling of pilot test wells. Newmex has also entered into a consulting services agreement with a third party that will provide design and equipment and facilities procurement for the pilot wells.

Palo Duro Project

On September 15, 2005 the Company entered into a memorandum of understanding with 0733259 BC Ltd. ("vendor") for the acquisition of a 45% participation interest in the Palo Duro Project ("PD Project"), an emerging natural gas resource project located in the Palo Duro natural gas resource basin in North Texas. The purchase was concluded on December 13, 2005. The acquisition was paid for by: (a) the issuance of 270,000 common shares of the Company at a deemed issue price of $2.7625 per common share; (b) the issuance of 270,000 non-transferable common share purchase warrants of the Company; (c) and the payment of $2,955,000 US. The cash component of the purchase price represented a reimbursement to the vendor of funds advanced to the PD Project operator for expenditures incurred in land acquisitions, overheads, and exploration and development. The warrants provide the vendor with the right to receive an additional 270,000 common shares of the Company, within 75 days of the third anniversary of the memorandum of understanding, for no additional consideration, if the average production rate per well drilled in the PD Project is at least 1.5 million cubic feet equivalent per day, based on the initial 60 days of production. The number of warrants issued will be reduced pro rata to the actual average production rate if the actual average production rate per well drilled by September 15, 2008 is less than 1.5 million cubic feet equivalent per day.

The vendor has the right ("back-in right"), exercisable on the earlier of March 15, 2006 and the day that is five days following the date the first well in the PD Project is spudded, to acquire up to a 15% interest in the PD Project, to be acquired from the Company's 45% participating interest, in consideration of the vendor reimbursing the Company for a pro rata portion of certain expenses incurred by the Company. The number of warrants to which the vendor is entitled will also be reduced by 66% if the vendor acquires an interest in the PD Project under the back-in right.

Valkyries US Assets

On December 22, 2005, the Company signed a letter of intent with Valkyries Petroleum Corp. ("Valkyries") to acquire all of Valkyries' US oil and gas assets for a purchase price of $4,600,000 US cash plus a potential deferred bonus payment. The bonus payment, if any, will be calculated on the basis of $1.00 US per oil equivalent barrel of additional net proved reserves in respect of three selected properties, effective on the second anniversary of the purchase transaction and as certified by an independent reserves evaluator acceptable to both the Company and Valkyries. The purchase was completed on January 20, 2006, with the closing adjustments calculated effective as of September 1, 2005. The payment at closing was $5,829,412 US comprised of: (a) the aforesaid $4,600,000 US; (b) the reimbursement of $1,255,701 US for Mustang Island expenditures paid by Valkyries; and (c) a credit of $26,289 US relating to the closing adjustments. The Valkyries US assets are comprised of: the rights to an offshore OCS block (Mustang Island Area); a strategic working interest investment in Rincon Energy Partners LLC, a US based oil and gas prospect generation company specializing in Gulf Coast and California oil and gas exploration; and oil and gas production and royalty interests in California, Texas, and Louisiana. The net remaining reserves associated with the latter assets are approximately 99 Mboe Proved and 48 Mboe Probable, based upon an independent evaluator's assessment of the working interest plus royalty interest production.

Pan-Global Energy Ltd. – proposed purchase

On December 22, 2005, the Company signed a letter of intent with Pan-Global Energy Ltd. ("Pan-Global") to acquire all of the issued and outstanding shares of Pan-Global on the basis of six common shares of Pan-Global for one common share of the Company. Pan-Global's primary asset is a 95% interest in a prospective oil and gas property located along the Saskatchewan/Alberta border near Lloydminster, referred to as the Onion Lake lands. Pan-Global is entitled to exclusively explore and develop approximately 148,000 acres of existing and new Treaty Land Entitlement Reserves under the terms of an agreement with Onion Lake Energy Ltd., an entity wholly owned by the Onion Lake First Nations of Saskatchewan/Alberta. The project is subject to a 15% back-in right by Onion Lake Energy Ltd. The project contains a potentially significant conventional heavy oil accumulation and is currently producing approximately 325 barrels of oil equivalent per day. The agreement with Onion Lake Energy Ltd. expires on May 31, 2006, with Pan-Global having the option to extend the agreement for a further one year period. The Company has also agreed in principle to provide a loan of up to $1,000,000 to Pan-Global to cover Pan-Global's capital expenditures during the Company's due diligence period. The terms and conditions of the loan have not yet been finalized.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2005 the Company had a working capital position of $2,886,018 versus a working capital deficiency as at September 30, 2004 of $801,696. This change reflects the Company's issue of common shares in March and September with total gross proceeds of $3,325,000 and the debt settlements with PPI and EnerGCorp, Inc. With the aforementioned transition process of the Company subsequent to September 30, 2005, the Company will now utilize its cash reserves primarily to cover overheads and to meet its participation obligations for the San Miguel and Palo Duro Projects, as well as to investigate other resource opportunities. Assuming the initial pilot wells and other factors indicate the participants should proceed with full fledged development programs for the San Miguel and Palo Duro Projects, the Company would require further funding, be it through loans, the issue of additional share capital, a combination thereof, or some other means, to meet its share of the capital requirements for these two projects. In furtherance thereof, the Company completed a private placement in December 2005, raising gross proceeds of $16,763,500 (refer to Outstanding Share Data).

CONTRACTUAL OBLIGATIONS

The Company has a royalty obligation on its Zeballos mineral property of a 1% net smelter royalty, to a maximum of $250,000 payable from gold production. The Zeballos mine is not currently in production and it is not anticipated that production will renew in the foreseeable future, therefore it is unpredictable as to when, if ever, payments will arise under this obligation. The Company has a further royalty obligation of 10% of gross revenues from the sale of timber rights on the Zeballos property. The Company has not yet sold any timber rights which would give rise to this royalty obligation, and it is unpredictable when, if ever, timber rights will be sold.

Pursuant to the participation agreements to which the Company is a party by virtue of its acquisition of the San Miguel and Palo Duro Projects subsequent to September 30, 2005 (see Acquisitions), the Company is committed to provide its proportionate share of any cash calls arising from its participation in these Projects. As these Projects are still in the land acquisition, development, planning, and pilot project stages, the amount and timing of commitments is still being determined. The Company also entered into a consulting services agreement with a third party that will provide design and equipment and facilities procurement for the pilot wells for the San Miguel Project. Fees for these services are based upon time spent and specified hourly rates, plus out-of-pocket expenses.

On January 1, 2006, the Company entered into a consulting agreement with Rincon Energy, LLC ("Rincon") whereby Rincon will provide consulting services for the purpose of generating oil and gas prospects in the Gulf of Mexico and California and any other areas as mutually agreed upon by the Company and Rincon. The consulting agreement is for an initial term of two years, with the ability of the Company to extend the agreement for an additional two years. The consulting fee payable thereunder is $40,000 US per month plus certain overriding royalty interests, back-in rights and participation rights.

RELATED PARTY TRANSACTIONS

As previously mentioned, the Company settled its outstanding indebtedness to PPI and EnerGCorp, Inc. effective March 24, 2005. PPI provides administrative and other services to the Company and a fee of $44,300 was charged by PPI for the period March 24, 2005 to September 30, 2005. This fee was based upon the time and expenses incurred by PPI. In prior periods where PPI was Newmex's parent company, nominal fees were charged for these services. The Company utilizes the services of PPI to meet all its accounting, reporting, and other requirements.

Effective March 7, 2005, the 2,582,872 Newmex escrow shares held by PPI were cancelled with the consent of PPI, as the escrow term had expired without the fulfillment of the escrow conditions. With the issuance of 16,050,000 common shares by the Company on March 23, 2005, PPI no longer is the parent company of Newmex.

For the year ended September 30, 2005, the Company paid to a director of Newmex consulting fees of $2,296. These fees were for services rendered to the Company and advice on the operations of its mineral property.

A director appointed to the Company's Board on January 5, 2006 is also a Valkyries' director (refer to Acquisitions), and the Company's major shareholder is also a director and officer of and a shareholder in Valkyries. The acquisition of the Valkyries US assets are considered to be at fair market value, has commercial substance, and is consistent with the Company's normal course of operations.

RISK MANAGEMENT

The Company is exposed to several operational risks inherent in exploring, developing, and producing oil and natural gas and minerals. These inherent risks include: economic risk of finding and producing reserves at a reasonable cost; cost of capital risk associated with securing the needed capital to carry out the Company's operations; risk of fluctuating foreign currency exchange rates; risk of carrying out operations with minimal environmental impact; risk of governmental policies, social instability or other political, economic or diplomatic developments in its US operations; market risks associated with investing the Company's cash reserves in interest bearing depository instruments; and environmental risks related to its mineral property. The Company's mine site is presently not operating, and therefore any environmental risks are being mitigated. Many of the aforesaid risks are beyond the Company's control, and it is impossible to ensure that any exploration drilling program will result in commercial operations. The Company does not utilize derivative instruments to hedge its foreign currency exchange or interest rate risks.

ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Estimates

The Company's critical accounting estimates are defined as those estimates that have a significant impact on the portrayal of the Company's financial position and operations and that require management to make judgements, assumptions and estimates in the application of Canadian generally accepted accounting principles. Judgements, assumptions and estimates are based on historical experience and other factors that management believes to be reasonable under current conditions. As events occur and additional information is obtained, these judgements, assumptions and estimates may be subject to change. We believe the following are the critical accounting estimates used in the preparation of the Company's September 30, 2005 consolidated financial statements.

(a) Mineral properties and deferred costs

Management established the carrying value of its Zeballos mineral property based upon the comparative properties approach utilizing mineral properties of comparable status to that of the Zeballos mineral property. In light of the Company's transition subsequent to September 30, 2005 to focusing on oil and gas opportunities, it is more likely than not that the Company will dispose of its Zeballos mineral property and there is no assurance that the Company will realize a net recoverable value equal to the carrying value of this property.

(b) Income tax

The Company has non-capital loss carry forwards of $792,806, a capital loss carry forward of $38,535, and mineral property tax pools of $3,471,742 for which it has not recognized a tax asset associated with the benefit thereof in its September 30, 2005 consolidated financial statements, as the Company does not believe that it can demonstrate that it is more likely than not that it will utilize these tax benefits against future taxable income during the carry forward periods.

Accounting policies

A summary of the Company's significant accounting policies is presented in Note 2 to the Company's September 30, 2005 consolidated financial statements.

In September 2005, the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 3110, *Asset Retirement Obligations*, which accounting policy is described in Note 2 to the Company's September 30, 2005 financial statements. This change in accounting policy had no material effect to the Company.

In April 2005, the Canadian Institute of Chartered Accountants issued Section 3855, *Financial Instruments-Recognition and Measurement*, Section 3865, *Hedges*, and Section 1530, *Comprehensive Income*. These new standards will be effective for the Company for its 2007 fiscal year beginning October 1, 2006. Section 3855 prescribes when to recognize a financial instrument on the balance sheet and at what amount – sometimes using fair market value; other times using cost-based measures. It also specifies how to present the financial instrument gains and losses. Section 1530 stipulates new requirements for situations when one must temporarily present certain gains and losses outside net income. The Company is undertaking its analysis of the impact of these standards. Section 3865 is unlikely to affect the Company as the Company does not conduct any hedging activities.

OUSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. Effective March 7, 2005, the 2,582,872 common shares issued to PPI that were held in escrow were cancelled with the consent of PPI, as the escrow term had expired without the fulfillment of the escrow conditions. On March 23, 2005 the Company issued through a non-brokered private placement 15,000,000 common shares at $0.055 per share for gross proceeds of $825,000 and net proceeds of $813,486 after share issue costs. An additional 1,050,000 common shares were issued relating to the finder's fee for the private placement, which shares were deemed to be issued at $0.055 per common share. On September 13, 2005 the Company issued through a non-brokered private placement 2,000,000 units at a price of $1.25 per unit, with each unit consisting of one common share and one half of a share purchase warrant, resulting in the issue of 2,000,000 common shares at $1.25 per share for gross proceeds of $2,500,000 and net proceeds of $2,477,280 after share issue costs. Each whole warrant is exercisable at a price of $2.00 per Newmex common share at any time prior to 4:30 pm Calgary time on September 13, 2006. In the event the Newmex common shares trade at $2.50 or higher for a period of 20 consecutive trading days after the expiry of the four month holding period, the Company may provide notice of an early expiry of the warrants and the warrants shall expire 15 business days after the date of such notice. After giving effect to these transactions, the Company had 23,745,822 common shares and 1,000,000 share purchase warrants issued and outstanding at September 30, 2005.

On December 14, 2005 the Company completed a non-brokered, private placement of 5,158,000 units at a price of $3.25 per unit for gross proceeds of $16,763,500. Each unit consisted of one Newmex common share (resulting in the issue of 5,158,000 common shares) and one half of a share purchase warrant. The units are subject to a four month holding period. Each whole warrant is exercisable at a price of $4.00 per Newmex common share at any time prior to 4:30 pm Calgary time on December 14, 2007. In the event the Newmex common shares trade at weighted average price of $4.50 or higher for a period of 20 consecutive trading days after the expiry of the four month holding period, the Company may provide notice of an early expiry of the warrants and the warrants shall then expire 30 days after the date of such notice. Upon receipt of regulatory approval, a 5% finder's fee will be paid to qualified persons in respect of a portion of the private placement.

On October 19, 2005, the Board granted stock options pursuant to the Company's Stock Option Plan ("Plan") to purchase an aggregate of 197,500 common shares at an exercise price of $3.65 per common share. The options are fully vested upon their grant, and subject to the other provisions of the Plan and/or Option Agreements, the options have an expiry date of September 30, 2010.

On January 5, 2006, the Board granted stock options pursuant to the Company's Plan to purchase an aggregate of 935,000 common shares at an exercise price of $3.41 per common share. Fifty percent of the options fully vest upon their grant and the other fifty percent vest one year from the date of grant. Subject to the other provisions of the Plan and/or Option Agreements, the options have an expiry date of January 5, 2008.

With respect to the aforesaid grant of stock options, the Company will recognize an imputed compensation expense relating to the estimated fair value of the options granted, which expense will be amortized over the respective vesting periods. The estimated fair value of the options will be determined using the Black-Scholes option pricing model which takes into consideration: the risk-free interest rate, the expected life of the options, the Company's dividend expectations, and the expected volatility of the Company's common shares. The Company has not yet finalized its assumptions for each of these factors.

As mentioned previously under Acquisitions, a portion of the purchase price of the San Miguel Project was paid for by the issuance of 4,000,000 common shares of the Company at a deemed issue price of $0.92 per common share and 4,000,000 non-transferable common share purchase warrants of the Company. The warrants entitle the holder thereof to purchase an additional common share of the Company at a price of $1.00, exercisable from the date the SM Project achieves an average daily producing rate of 5,000 barrels of oil per day, averaged over 30 consecutive days, until November 18, 2008.

As mentioned previously under Acquisitions, a portion of the purchase price of the Palo Duro Project was paid for by the issuance of 270,000 common shares of the Company at a deemed issue price of $2.7625 per common share and 270,000 non-transferable common share purchase warrants of the Company. The warrants provide the vendor with the right to receive an additional 270,000 common shares of the Company, within 75 days of the third anniversary of the memorandum of understanding, for no additional consideration, if the average production rate per well drilled in the PD Project is at least 1.5 million cubic feet equivalent per day, based on the initial 60 days of production. The number of warrants issued will be reduced pro rata to the actual average production rate if the actual average production rate per well drilled by September 15, 2008 is less than 1.5 million cubic feet equivalent per day.

A summary of the number of common shares presently issued and common shares that would be issued upon the exercise of the warrants and stock options, including the above transactions, is as follows:

	date	presently issued	warrants	stock options
opening number of shares	Oct 01/04	8,278,694	-	-
cancellation of escrow shares	Mar 07/05	(2,582,872)	-	-
		5,695,822	-	-
private placement	Mar 23/05	16,050,000	-	-
		21,745,822	-	-
private placement	Sep 13/05	2,000,000	1,000,000	-
		23,745,822	1,000,000	-
stock option grants	Oct 19/05	-	-	197,500
		23,745,822	1,000,000	197,500
San Miguel transaction	Nov 18/05	4,000,000	4,000,000	-
		27,745,822	5,000,000	197,500
Palo Duro transaction	Dec 08/05	270,000	270,000	-
		28,015,822	5,270,000	197,500
private placement	Dec 13/05	5,158,000	2,579,000	-
		33,173,822	7,849,000	197,500
stock option grants	Jan 05/06	-	-	935,000
		33,173,822	7,849,000	1,132,500

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are defined under Multilateral Instrument 52-109 – Certification of Disclosure Controls in Issuers' Annual and Interim Filings ("MI 52-109") as "...controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under provincial and territorial securities legislation is recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation and include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under provincial and territorial securities legislation is accumulated and communicated to the issuer's management, including its chief executive officers and chief financial officers (or persons who perform similar functions to a chief executive officer or a chief financial officer), as appropriate to allow timely decisions regarding required disclosure." The Company has conducted a review and evaluation of its disclosure controls and procedures, with the conclusion that it has an effective system of disclosure controls and procedures as defined under MI 52-109. In reaching this conclusion, the Company recognizes that two key factors must be and are present:

a) the Company is very dependant upon its advisors and consultants (principally its legal counsel) to assist in recognizing, interpreting, understanding and complying with the various securities regulations disclosure requirements; and

b) an active Board and management with open lines of communication.

The Company has a small staff with varying degrees of knowledge concerning the various regulatory disclosure requirements. In many circumstances, the various regulatory requirements are relatively new, subject to interpretation, and complex. The Company is not of a sufficient size to justify a separate department or one or more staff member specialists in this area. Therefore the Company must rely upon its advisors/consultants to assist it and as such they form part of the disclosure controls and procedures.

Proper disclosure necessitates that one not only be aware of the pertinent disclosure requirements, but one is also sufficiently involved in the affairs of the Company and/or receives the communication of information to assess any necessary disclosure requirements. Accordingly, it is essential that there be proper communication among those people who manage and govern the affairs of the Company, this being the Board of Directors and senior management. The Company believes this communication exists.

While the Company believes it has adequate disclosure controls and procedures in place, lapses in the disclosure controls and procedures could occur and/or mistakes could happen. Should such occur, the Company will take whatever steps necessary to minimize the consequences thereof.

OUTLOOK

The resolution of the Company's debt, the raising of funds through the issue of common shares, and the investment opportunities manifest to the Company, permitted the Company to refocus on its strategic direction, which it has now determined will primarily be activities in the oil and gas industry. As a result, the Company subsequently acquired participation interests (see Acquisitions) in two oil/gas plays, which the Company feels will reap significant shareholder value over the long term. In order to realize on these investments and other potential opportunities, the Company will have to raise additional funds in the future.

NEWMEX MINERALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2005 AND 2004

Mintz & Partners LLP

AUDITORS' REPORT

To the Shareholders of
Newmex Minerals Inc.

We have audited the consolidated balance sheets of Newmex Minerals Inc. as at September 30, 2005 and 2004 and the consolidated statements of earnings, deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether these financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in these financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the presentation of overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Newmex Minerals Inc. as at September 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Mintz & Partners LLP

January 23, 2006
Toronto, Ontario

CHARTERED ACCOUNTANTS

Newmex Minerals Inc.

Management's Report

The accompanying Consolidated Financial Statements of Newmex Minerals Inc. and related financial information presented in this annual report are the responsibility of Management and have been approved by the Board of Directors. The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. The Consolidated Financial Statements and related financial information reflect amounts which must, of necessity, be based upon informed estimates and judgments of Management with appropriate consideration to materiality. All financial information contained in the annual report is consistent, where appropriate, with that contained in the Consolidated Financial Statements.

The Company has developed and maintains systems of internal controls, policies and procedures in order to provide reasonable assurance as to the reliability of the financial records and the safeguard of assets.

Mintz & Partners LLP, independent external auditors appointed by the shareholders of the Company, review Newmex Minerals Inc.'s systems of internal controls and conduct their work to the extent they deem appropriate. They have examined the Consolidated Financial Statements and they have expressed an opinion on the statements. Their report is included in the Consolidated Financial Statements.

The Board of Directors has established an Audit Committee. The Audit Committee reviews with Management and the external auditors any significant financial reporting issues, the financial statements, and any other matters of relevance to the parties. The Audit Committee meets quarterly to review and approve the interim financial statements prior to their release, as well as annually to review the Company's annual financial statements and Management's discussion and analysis, and to recommend their approval to the Board of Directors. The external auditors have unrestricted access to the Company, the Audit Committee and the Board of Directors.

"signed"

Gary S. Guidry
President & Chief Executive Officer

"signed"

William H. Berezan
Chief Financial Officer

January 23, 2006

Consolidated Balance Sheets

As at September 30		2005		2004
Assets				
Current assets				
Cash	$	**1,608,312**	$	4,208
Other assets (Note3)		**378,126**		35,789
Loans receivable (Note 4)		**1,104,565**		-
Short-term investments (Note 5)		**-**		632,081
		3,091,003		672,078
Mineral properties and deferred costs (Note 7)		**100,000**		125,000
	$	**3,191,003**	$	797,078
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$	**200,073**	$	77,550
Advances due to Proprietary Industries Inc. (Note 8)		**-**		374,305
Advances due to EnerGCorp, Inc. (Note 8)		**-**		1,017,007
Income taxes payable (Note 9)		**4,912**		4,912
		204,985		1,473,774
Shareholders' Equity (Deficiency)				
Share capital (Note 10)		**8,530,798**		5,233,432
Contributed surplus		**816,444**		816,444
Deficit		**(6,361,224)**		(6,726,572)
		2,986,018		(676,696)
	$	**3,191,003**	$	797,078

See accompanying notes

Approved by the Board:

"Signed"
Stephen C. Akerfeldt

"Signed"
A. Murray Sinclair

Consolidated Statements of Earnings and Deficit

For the years ended September 30		2005		2004
Revenue				
Interest Income	$	8,537	$	3,486
Expenses				
Consulting fees		20,296		37,823
Exploration and maintenance expenses		56,955		(3,063)
Insurance		17,500		19,857
Interest		8,183		26,775
Investor and public relations		21,599		16,617
Office and general expenses		46,130		10,876
Professional fees		109,965		37,056
Travel		1,820		3,718
		282,448		149,659
Loss before the following		(273,911)		(146,173)
Gain on disposal of short-term investments		-		417,082
Gain on settlement of debt (Note 8)		846,244		-
Write-downs		(226,300)		(75,000)
Foreign currency exchange gain		19,315		91,338
		639,259		433,420
Income before income taxes		365,348		287,247
Income taxes (recovery) (Note 9)		-		(4,430)
Net income for the year		365,348		291,677
Deficit, beginning of year		(6,726,572)		(7,018,249)
Deficit, end of year	$	(6,361,224)	$	(6,726,572)
Earnings per share - basic	$	0.02	$	0.04
Earnings per share – diluted (Note 10)	$	0.02	$	0.04
Weighted average number of common shares used in computing earnings per share:				
basic		15,348,179		8,278,694
diluted		15,369,360		8,278,694

See accompanying notes

Consolidated Statements of Cash Flows

For the years ended September 30		2005		2004
Cash flows provided by (used in)				
Operating activities				
Net income	$	365,348	$	291,677
Items not involving cash				
Write-downs		226,300		75,000
Gain on disposal of short-term investments		-		(417,082)
Gain on settlement of debt (Note 8)		(846,244)		-
Interest on advances due to Proprietary Industries Inc.		8,183		26,775
Foreign exchange gain		(20,029)		(83,203)
		(266,442)		(106,833)
Changes in non-cash balances related to operations (Note 11)		82,974		(37,048)
Cash used in operating activities		(183,468)		(143,881)
Financing activities				
Advances from (repayments to) Proprietary Industries Inc., net (Note 8)		(42,591)		56,584
Repayments to EnerGCorp, Inc., net (Note 8)		-		(912,297)
Proceeds from private placements, net of costs (Note 10)		3,297,366		-
Other assets (Note 3)		(186,450)		-
Loans receivable advances (Note 4)		(1,126,870)		-
Cash from (used in) financing activities		1,941,455		(855,713)
Investing activities				
Proceeds from sale of short-term investments		-		876,890
Other assets (Note 3)		(153,883)		-
Cash received from (used in) investing activities		(153,883)		876,890
Net increase (decrease) in cash		1,604,104		(122,704)
Cash, beginning of year		4,208		126,912
Cash, end of year	$	1,608,312	$	4,208

Supplementary disclosure of cash flow information:

Interest paid	$	-	$	14
Taxes paid	$	-	$	559

See accompanying notes

1. NATURE OF OPERATIONS

Newmex Minerals Inc. (the "Company" or "Newmex") is listed and traded on the TSX Venture Exchange under the trading symbol "NMM". The Company is engaged in the business of mineral, oil and gas exploration and development.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation
The consolidated financial statements include the accounts of the Company and its wholly-owned inactive subsidiaries, Newmex Minerals USA Inc., and Newmex Nevada Inc.

b) Loans and notes receivable
Loans and notes receivable are reviewed on a loan by loan basis and where an impairment in the value of the loan receivable is determined, a provision for impairment is made. The Company does not reflect in its consolidated financial statements further accrued interest on impaired loans, and to the extent further accrued interest is collected, this will be reflected in the Company's consolidated financial statements at that time.

c) Short-term investments
Short-term investments are recorded at the lower of cost and market value. Market value is defined as being the trading value at the date of the balance sheet. Shares of public companies are marked to market as portfolio investments.

d) Mineral properties and deferred costs
Mineral properties are recorded at the lower of cost and estimated recoverable value. Cost includes initial property acquisition costs, related property option payments, exploration and development costs, and other costs directly related to specific properties, but excludes all administration overhead, which is expensed as incurred.

If a mineral property is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the year of abandonment or determination of impairment of value. The amounts recorded as mineral properties and deferred costs represent unamortized costs to date and do not necessarily reflect present or future values.

e) Asset retirement obligations
The fair value of an asset retirement obligation ("ARO") is recognized in the period in which a reasonable estimate of the fair value can be made. The fair value is determined by the Company by first estimating the expected timing and amount of cash flows, using third party costs, that will be required for future dismantlement and site restoration, and then present valuing these future payments using a credit adjusted risk free rate appropriate for the Company. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying value of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO. Actual costs incurred upon the settlement of the ARO are charged against the ARO to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the ARO and the recorded liability is recognized as a gain or loss in the Company's earnings in the period in which the settlement occurs.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in the period that includes the date of substantive enactment. To the extent that management does not consider it to be more likely than not a future income tax asset will be realized a valuation allowance is provided.

g) Flow-through shares

Share capital includes flow-through shares issued pursuant to certain provisions of the *Income Tax Act (Canada)* (the "Act). The Act provides that, where share issuance proceeds are used for exploration and development expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the Company. Share capital is reduced and a future income tax liability is recorded equal to the estimated amount of future income taxes payable by the Company as a result of the renunciations when the expenditures are made. Where at the time of issuance the Company has unrecorded net tax assets exceeding the deductions renounced, no future income tax liability is recorded.

h) Stock option plan

The Company has a stock option plan as described in Note 10. The fair value method, utilizing the Black-Scholes option pricing model, has been adopted by the Company for stock options granted to directors, officers, consultants and employees. The estimated fair value is recognized over the applicable vesting period as compensation expense and an increase to contributed surplus. When the options are exercised, the proceeds received and the applicable amount in contributed surplus will be credited to share capital.

i) Translation of foreign currencies

The Company utilizes the temporal method of accounting for foreign currency transactions and financial statements of its subsidiaries. Under the temporal method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the historical exchange rates, except those items carried at market, which are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average rate for the period, except for charges related to non-monetary assets which are translated at the historical rate for the assets to which the charge relates, and material items where a specific date can be identified for the transaction which is translated at the rate on that specific date. Exchange gains or losses are reflected in net earnings.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Earnings per share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated based upon the treasury stock method which assumes that any proceeds from the exercise of in-the-money stock options or warrants would be used to purchase the Company's common shares at the average market price during the year (or period if applicable). Diluted earnings per share do not include any anti-dilutive conversions, nor is diluted earnings per share presented where the total effect would be anti-dilutive.

k) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the timing of recognition of revenues and expenses during the reporting period. Actual amounts may differ from these estimates as future events occur.

l) Comparative amounts

Certain comparative amounts have been reclassified to conform to the current year's presentation.

m) Other recent pronouncements

In April 2005, the Canadian Institute of Chartered Accountants issued Section 3855, *Financial Instruments-Recognition and Measurement*, Section 3865, *Hedges*, and Section 1530, *Comprehensive Income*. These new standards will be effective for the Company for its 2007 fiscal year beginning October 1, 2006. Section 3855 prescribes when to recognize a financial instrument on the balance sheet and at what amount – sometimes using fair market value; other times using cost-based measures. It also specifies how to present the financial instrument gains and losses. Section 1530 stipulates new requirements for situations when one must temporarily present certain gains and losses outside net income. The Company is undertaking its analysis of the impact of these standards. Section 3865 is unlikely to affect the Company as the Company does not conduct any hedging activities.

3. OTHER ASSETS

	2005	2004
Other assets are comprised of:	**$**	$
Deposit	**174,405**	-
Site reclamation bond	**35,505**	34,941
Accounts receivable	**14,333**	-
Prepaid expenses	**153,883**	848
	$ 378,126	$ 35,789

The deposit represents the $150,000 US refundable deposit required pursuant to the "San Miguel" Memorandum of Understanding described in Note 4 (also refer to Note 15). Included in prepaid expenses are $121,379 in expenditures relating to the San Miguel project, which will become part of the acquisition cost when the purchase closes.

4. LOANS RECEIVABLE

		2005		2004
San Miguel Development Ltd.	$	**290,675**	$	-
0733259 BC Ltd.		**813,890**		-
	$	**1,104,565**	$	-

The Company entered into two separate Memorandums of Understanding whereby the Company proposes to purchase a 50% interest in the San Miguel Heavy Oil Field Development. Pursuant to these Memorandums, the Company made a refundable deposit of $150,000 US on July 27, 2005 and advanced a further $250,000 US on September 20, 2005. The latter represented a loan to San Miguel Development Ltd., which is non-interest bearing until the close of the transaction referred to in Note 15. Upon close of the transaction, the loan will constitute part of the project funding commitment. If the transaction had not closed, the loan would have been due 120 days after demand by the Company.

The Company has entered into a Memorandum of Understanding whereby the Company proposes to purchase a 45% participation interest in the Palo Duro Project. Pursuant to the Memorandum, on September 15, 2005 the Company advanced $700,000 US. This advance represents a loan to 0733259 BC Ltd., which is non-interest bearing until the close of the transaction referred to in Note 15. Upon the close of the transaction, the loan will comprise part of the purchase price consideration. Had the transaction not closed, the loan would have been repayable within 60 days after demand by the Company.

5. SHORT-TERM INVESTMENTS

		2005		2004
Golden Phoenix Minerals, Inc. ("GPXM")	$	**-**	$	632,081

Effective March 24, 2005, the Company settled its indebtedness to Proprietary Industries Inc. ("Proprietary"), with a portion of the consideration paid by the Company to Proprietary being the transfer of the 2,233,043 GPXM shares owned by the Company. At the time of the debt settlement, the GPXM shares were valued at $325,980, representing the trading price for these shares at the close of trading on March 23, 2005 translated into Canadian dollars at the closing rate of exchange on March 23, 2005 as quoted by the Bank of Canada. This resulted in a loss on the disposition of the GPXM shares of $130,301 (see Note 8).

6. NOTES RECEIVABLE

		2005		2004
Former directors	$	**220,025**	$	220,025
Less write-down to estimated net realizable value		**(220,025)**		(220,025)
	$	**-**	$	-

The notes from former directors are unsecured, bear interest at 7% per annum, and have no specified terms of repayment. These notes arose in connection with the exercise of options in fiscal 2000. Due to the uncertainty of the collectability of these amounts, the Company has written down these amounts to their estimated net realizable value. If repayment occurs, a recovery will be included in income at that time.

7. MINERAL PROPERTIES AND DEFERRED COSTS

Mineral properties and deferred costs consist of:

	2005			
	Balance, Beginning of Year	**Net Additions**	**Abandoned or Impaired**	**Balance, End of Year**
Zeballos	**$ 125,000**	**$ -**	**$ (25,000)**	**$ 100,000**

	2004			
	Balance, Beginning of Year	Net Additions	Abandoned or Impaired	Balance, End of Year
Zeballos	$ 200,000	$ -	$ (75,000)	$ 125,000

The preliminary prospecting report carried out by independent consultants for the Company in fiscal 2005 recommended that the Company spend an estimated $100,000 to conduct further drilling in unexplored areas of the mineral property. As it unlikely the Company will proceed with further prospecting/exploration expenditures on this mineral property, the Company has written the mineral property down to the estimated net recoverable value and expensed all prospecting/exploration expenses incurred in the current fiscal year.

The Company has estimated the fair value of the asset retirement obligations ("ARO") for the Zeballos property at $35,500 and for a property previously held in a US subsidiary, which subsidiary is inactive and whose assets the Company previously wrote off, to be $10,000. The increase in the estimated ARO over last year is $25,500, which the Company reflected as an additional write-down since the net realizable value of the mineral properties is not expected to recover this increase. As this ARO is expected to be retired and/or resolved within twelve months, the Company has included the ARO in accounts payable.

8. RELATED PARTY TRANSACTIONS

a) Advances due to related parties:

(i) Proprietary Industries Inc.
As a result of the private placement of common shares by the Company (see Note 10), Proprietary is no longer the parent company of Newmex.

Effective March 24, 2005, the Company settled its indebtedness to Proprietary, including the indebtedness of the Company to EnerGCorp, Inc. (see below), by the payment of $125,000 in cash and the transfer to Proprietary of the 2,233,043 GPXM shares owned by the Company (see Note 5). This debt settlement for consideration of $450,980 resulted in a net gain to the Company of $846,244 comprised of the following:

Gain on debt settlement	$	988,158
Loss on disposition of GPXM shares		(130,301)
Exchange loss on EnerGCorp, Inc. debt		(11,613)
	$	846,244

8. RELATED PARTY TRANSACTIONS (continued)

a) Advances due to related parties (continued):

(ii) EnerGCorp, Inc.
Effective March 23, 2005, EnerGCorp, Inc. assigned the Company's indebtedness to Proprietary.

b) Related party transactions consist of:

(i) During the year, the Company paid $2,296 (2004 - $11,225) to a director for consulting services.

(ii) During the year, the Company paid $44,300 to Proprietary for administrative and other services, which is reflected in office and general expenses. For the year ended September 30, 2004, the Company paid $8,200 to Proprietary.

These transactions were all entered into in the normal course of business and have been valued at the exchange amount established and agreed to by the related parties.

9. INCOME TAXES

a) Significant components of the future income tax asset at September 30, 2005 and 2004 are as follows:

		2005		2004
Mineral properties and deferred costs	$	1,133,580	$	1,188,418
Non-capital loss carry forwards		266,541		539,063
Capital loss carry forward		6,478		-
Other		37,698		(35,758)
Valuation allowance		(1,444,297)		(1,691,723)
	$	-	$	-

b) Income taxes (recovery) differ from that which would be expected from applying the effective Canadian federal and provincial tax rates of 33.62% (2004 – 34.37%) to income or loss before income taxes as follows:

		2005		2004
Expected income taxes	$	122,830	$	98,727
Change in valuation allowance		36,512		(218,719)
Exempt portion of capital gains		-		(85,974)
Other		14,321		120,633
Benefit of utilization of tax losses on debt settlement		(332,219)		-
Adjustment for change in enacted income tax rates		-		51,245
Tax losses of current year not recognized		158,556		29,658
Income taxes (recovery)	$	-	$	(4,430)

c) The Company has available mineral property tax pools of $3,471,742, a capital loss carry forward of $38,535, and non-capital loss carry forwards of $792,806, for which no benefit has been recognized in the financial statements. The non-capital loss carry forwards expire as follows:

2010	$	234,905
2013		86,290
2014		147,411
2015		324,200
	$	792,806

10. SHARE CAPITAL

a) Authorized:
The Company is authorized to issue an unlimited number of common shares.

b) Common Shares Issued:
On March 23, 2005, the Company completed a non-brokered private placement of 15,000,000 common shares at a price of $0.055 per common share, plus the issue of 1,050,000 common shares representing the payment of a finder's fee which the Company has deemed a value of $0.055 per share.

On September 13, 2005 the Company completed a non-brokered private placement of 2,000,000 units at a price of $1.25 per common share. Each unit consisted of one common share and one-half warrant (see (c) below).

	Number of Shares		Attributed Value
Balance as at September 30, 2004	8,278,694	$	5,233,432
Escrow shares cancelled	(2,582,872)		-
Shares issued through private placements	17,000,000		3,325,000
Shares issued for private placement finder's fee	1,050,000		57,750
	23,745,822		8,616,182
Private placements share issue costs	-		(85,384)
Balance, as at September 30, 2005	23,745,822	$	8,530,798

c) Warrants Outstanding

	Number of Warrants		Exercise Price Per Share	Expiry Date
Balance as at September 30, 2004	-	$	-	
Issued pursuant to September 13, 2005 private placement	1,000,000		2.00	September 13, 2006
Balance as at September 30, 2005	1,000,000	$	2.00	

In the event the Company's common shares trade at $2.50 or higher for a period of 20 consecutive trading days after January 14, 2006 (expiry of the hold period), the Company may provide notice of an early expiry of the warrants and the warrants shall then expire 15 business days after the date of such notice.

d) Stock Options

The Company's Stock Option Plan ("Plan"), which was approved by the Board of Directors on May 9, 2005, permits the Company to grant options to its directors, officers, employees and consultants for up to 2,374,582 common shares, said number not to exceed 10% of the issued and outstanding common shares of the Company. The granting of options, exercise price, vesting, and terms of the option agreement are determined by the Board of Directors. The exercise price cannot be lower than the exercise price permitted by the TSX Venture Exchange. The Plan still requires shareholder approval, which will be sought at the Company's next annual meeting. There were no options issued and outstanding under the Plan nor the prior stock option plan as of September 30, 2005 and 2004.

10. SHARE CAPITAL (continued)

e) Stock Options (continued)

On October 19, 2005, the Board granted stock options pursuant to the Company's Plan to purchase an aggregate of 197,500 common shares at an exercise price of $3.65 per common share. The options fully vest upon their grant, and subject to the other provisions of the Plan and/or Option Agreements, the options have an expiry date of September 30, 2010. An imputed compensation expense will be recognized in the fiscal quarter ending December 31, 2005 relating to the estimated fair value of the options granted.

On January 5, 2006, the Board granted stock options pursuant to the Company's Plan to purchase an aggregate of 935,000 common shares at an exercise price of $3.41 per common share. The options vest as to ½ on the date of grant and ½ one year from the date of grant, and subject to the other provisions of the Plan and/or Option Agreements, the options have an expiry date of January 5, 2008. An imputed compensation expense amortized over the respective vesting periods will be recognized relating to the estimated fair value of the options granted.

f) Escrow Shares

The escrow shares held by Proprietary were cancelled effective March 7, 2005. This cancellation had previously been agreed to by Proprietary as the escrow term had expired without the fulfillment of the escrow conditions.

g) Earnings Per Share

Basic earnings per common share has been calculated using the weighted average number of common shares outstanding at September 30, 2005 of 15,348,179 (2004 – 8,278,694). Diluted earnings per common share at September 30, 2005 has been calculated using the basic average number of common shares outstanding plus an additional 21,181 common shares representing the effect of the warrants, to give a total diluted number of common shares of 15,369,360 (2004 – 8,278,694).

11. CHANGES IN NON-CASH BALANCES RELATED TO OPERATIONS

The changes in non-cash balances related to operations are comprised of the following:

		2005		2004
Other assets	$	(14,049)	$	(737)
Accounts payable and accrued liabilities		97,049		(31,334)
Income taxes payable		-		(4,977)
	$	82,974	$	(37,048)

In connection with the Company's March 23, 2005 private placement of 15,000,000 common shares, the Company issued 1,050,000 common shares as a finder's fee, which the Company deemed to have a value of $0.055 per share (see Note 10). This represented a non-cash transaction.

12. COMMITMENTS

Pursuant to a purchase agreement dated October 15, 2001 to acquire 12 crown-granted mineral leases at Zeballos, the Company is committed to:

a) a 1% net smelter royalty, to a maximum of $250,000, payable from gold production to Newhawk Gold Mines Limited, and

b) 10% of gross revenues from the sale of timber from properties payable to J. Prochnau & Co.

The Company has made certain commitments with respect to the San Miguel and Palo Duro transactions as disclosed in Note 15 and has entered into a consulting agreement as disclosed in Note 15.

13. FINANCIAL INSTRUMENTS

The Company does not utilize derivative instruments to manage various types of risks. The Company is exposed to the following risks related to financial assets and liabilities:

a) Foreign currency exchange risk
The Company is exposed to risks arising from fluctuations in foreign currency exchange rates and the volatility of those rates. This exposure primarily relates to certain expenditure commitments, accounts payable, deposits, loans receivable, advances from EnerGCorp, Inc. and short-term investments which are in US dollars. With the debt settlement (Notes 5 and 8), the foreign currency exchange risks related to advances from EnerGCorp, Inc. and short-term investments have been eliminated.

b) Interest rate and credit risk
The Company was exposed to interest rate risk to the extent that advances due to Proprietary were at a fixed rate of interest. With the debt settlement (Note 8), this interest rate exposure was eliminated. The loans receivable referred to in Note 4 are non-interest bearing and with the transactions to which they relate having concluded they form part of the consideration and therefore there is no further interest rate and credit risk exposure on these.

c) Fair values
The fair values of accounts payable and accrued liabilities approximate their carrying value due to the short-term nature of these instruments. Previously the fair value of advances from EnerGCorp, Inc. was not practicable to determine since the Company would not enter into similar transactions in the absence of its prior relationship with EnerGCorp, Inc. and Proprietary. The fair value of the advances from EnerGCorp, Inc. and Proprietary were determined at the date of the debt settlement (Note 8).

The fair values of the deposit and loans receivable approximate their carrying value due to the short-term nature of these instruments with their conversion into consideration as a result of the closing of the transactions to which they relate (see Note 15).

14. SEGMENTED INFORMATION

The Company presently has one reportable business segment, that being the exploration and development of mineral properties in Canada.

15. SUBSEQUENT EVENTS

(a) San Miguel Project

On July 15, 2005, the Company entered into two memorandums of understanding for the acquisition of a 50% interest in the San Miguel Heavy Oil Field Development ("SM Project") which is located in Texas. The purchase was concluded on November 18, 2005. The Company established a wholly owned US subsidiary in which the participation rights are held. As a result of the purchase, the Company is now a 50% participant in the development of a large, shallow depth, heavy oil deposit located in the Maverick Basin in South Texas. Pilot testing operations are underway. The acquisition was paid for by: (a) the issuance of 4,000,000 common shares of the Company at a deemed issue price of $0.92 per common share; (b) the issuance of 4,000,000 non-transferable common share purchase warrants of the Company; and (c) the payment of $150,000 US, which amount was funded by the deposit referred to in Note 3. Each warrant entitles the holder thereof to purchase an additional common share of the Company at a price of $1.00, exercisable from the date the SM Project achieves an average daily producing rate of 5,000 barrels of oil per day, averaged over 30 consecutive days, until November 18, 2008.

Pursuant to the purchase terms, within 30 days of closing the SM Project the Company is to fund $750,000 US, which funds are to be utilized for land acquisition and the drilling of pilot test wells. The loan receivable of $250,000 US referred to in Note 4 constitutes a portion of this funding commitment. Newmex has also entered into a consulting services agreement with a third party that will provide design and equipment and facilities procurement for the pilot wells.

(b) Palo Duro Project

On September 15, 2005, the Company entered into a memorandum of understanding with 0733259 BC Ltd. ("vendor") for the acquisition of a 45% participation interest in the Palo Duro Project ("PD Project"), an emerging natural gas resource project located in the Palo Duro natural gas resource basin in North Texas. The purchase was concluded on December 13, 2005. The acquisition was paid for by: (a) the issuance of 270,000 common shares of the Company at a deemed issue price of $2.7625 per common share; (b) the issuance of 270,000 non-transferable common share purchase warrants of the Company; and (c) and the payment of $2,955,000 US. The loan receivable referred to in Note 4 and the additional $1,755,000 US loan referred to below constituted a portion of the item (c) payment. The warrants provide the vendor with the right to receive an additional 270,000 common shares of the Company, within 75 days of the third anniversary of the memorandum of understanding, for no additional consideration, if the average production rate per well drilled in the PD Project is at least 1.5 million cubic feet equivalent per day, based on the initial 60 days of production. The number of warrants issued will be reduced pro rata to the actual average production rate if the actual average production rate per well drilled by September 15, 2008 is less than 1.5 million cubic feet equivalent per day.

The vendor has the right ("back-in right"), exercisable on the earlier of March 15, 2006 and the day that is five days following the date the first well in the PD Project is spudded, to acquire up to a 15% interest in the PD Project, to be acquired from the Company's 45% participating interest, in consideration of the vendor reimbursing the Company for a pro rata portion of certain expenses incurred by the Company. The number of warrants to which the vendor is entitled will also be reduced by 66% if the vendor acquires an interest in the PD Project under the back-in right.

15 SUBSEQUENT EVENTS (continued)

(b) Palo Duro Project (continued)
On November 29, 2005, the Company made an additional loan of $1,755,000 US to the vendor, which funds were utilized by the vendor to meet a cash call for the PD Project. The loan was made under the same terms and conditions as the $500,000 US loan referred to in Note 4. As stated above, this loan became part of the cash portion of the purchase consideration. The Company used the proceeds from the loan referred to in (c) below to make the loan to the vendor.

(c) $1,755,000 US loan
On November 29, 2005, the Company received a loan of $1,755,000 US from Abalone Capital Ltd., a company related to Newmex's majority shareholder. The loan bears interest at 10%, is secured by a promissory note, and matures on December 31, 2005. The Company must also pay a bonus payment to the lender equal to 5% of the loan amount, which amount is payable by the Company, at the option of the lender, in cash or in Newmex common shares (subject to regulatory approval) based upon the market price of the Newmex common shares on November 29, 2005. The loan principal was repaid on December 20, 2005.

(d) Private Placement
On December 14, 2005, the Company completed a non-brokered, private placement of 5,158,000 Units at a price of $3.25 per Unit for gross proceeds of $16,763,500. Each Unit consists of one Newmex common share and one half of a share purchase warrant. The Units are subject to a four month holding period. Each whole warrant is exercisable at a price of $4.00 per Newmex common share at any time prior to 4:30 pm Calgary time on December 14, 2007. In the event the Newmex common shares trade at a weighted average price of $4.50 or higher for a period of 20 consecutive trading days after the expiry of the four month holding period, the Company may provide notice of an early expiry of the warrants and the warrants shall then expire 30 days after the date of such notice. Upon receipt of regulatory approval, a 5% finder's fee will be paid to qualified persons in respect of a portion of the private placement. The proceeds from this private placement will be used to repay the loan referred to in (c) above, for general working capital purposes, and to fund expenditures associated with oil and gas acquisitions, including those referred to above.

(e) Valkyries US Assets
On December 22, 2005, the Company signed a letter of intent with Valkyries Petroleum Corp. ("Valkyries") to acquire all of Valkyries' US oil and gas assets for a purchase price of $4,600,000 US cash plus a potential deferred bonus payment. The bonus payment, if any, will be calculated on the basis of $1.00 US per oil equivalent barrel of additional net proved reserves in respect of three selected properties, effective on the second anniversary of the purchase transaction and as certified by an independent reserves evaluator acceptable to both the Company and Valkyries. The purchase was completed on January 20, 2005, with the closing adjustments calculated effective as of September 1, 2005. The payment at closing was $5,829,412 US, comprised of: the aforesaid $4,600,000 US, the reimbursement of $1,255,701 US for Mustang Island expenditures paid by Valkyries, and a credit of $26,289 US relating to the closing adjustments. The Valkyries US assets are comprised of: the rights to an offshore OCS block (Mustang Island Area); a strategic working interest investment in Rincon Energy Partners LLC, a US based oil and gas prospect generation company specializing in Gulf Coast and California oil and gas exploration; and oil and gas production and royalty interests in California, Texas, and Louisiana.

15 SUBSEQUENT EVENTS (continued)

(e) Valkyries US Assets (continued)

Valkyries has a director in common with the Company, and the Company's major shareholder is a director and officer of and shareholder in Valkyries. The acquisition of the Valkyries US assets are considered to be at fair market value, has commercial substance, and is consistent with the Company's normal course of operations.

(f) Pan-Global Energy Ltd.

On December 22, 2005, the Company signed a letter of intent with Pan-Global Energy Ltd. ("Pan-Global") to acquire all of the issued and outstanding shares of Pan-Global on the basis of six common shares of Pan-Global for one common share of the Company. Pan-Global's primary asset is a 95% interest in a prospective oil and gas property located along the Saskatchewan/Alberta border near Lloydminster, referred to as the Onion Lake lands. Pan-Global is entitled to exclusively explore and develop approximately 148,000 acres of existing and new Treaty Land Entitlement Reserves under the terms of an agreement with Onion Lake Energy Ltd., an entity wholly owned by the Onion Lake First Nations of Saskatchewan/Alberta. The project is subject to a 15% back-in right by Onion Lake Energy Ltd. The agreement with Onion Lake Energy Ltd. expires on May 31, 2006, with Pan-Global having the option to extend the agreement for a further one year period. The Company has also agreed in principle to provide a loan of up to $1,000,000 to Pan-Global to cover Pan-Global's capital expenditures during the Company's due diligence period. The terms and conditions of the loan have not yet been finalized.

(g) Rincon Energy, LLC Consulting Agreement

On January 1, 2006, the Company entered into a consulting agreement with Rincon Energy, LLC ("Rincon") whereby Rincon will provide consulting services for the purpose of generating oil and gas prospects in the Gulf of Mexico and California and any other areas as mutually agreed upon by the Company and Rincon. The consulting agreement is for an initial term of two years, with the ability of the Company to extend the agreement for an additional two years. The consulting fee payable thereunder is $40,000 US per month plus certain overriding royalty interests, back-in and participation rights.

(h) Issue of stock options

On October 19, 2005 and January 5, 2005, the Company granted stock options as discussed in Note 10.

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